

Message Text

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46

ACTION EB-07

INFO OCT-01 AF-06 ARA-06 EUR-12 ISO-00 EA-06 NEA-09 RSC-01

IO-10 AGR-05 AID-05 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-01 CEA-01 SSO-00

NSCE-00 USIE-00 INRE-00 TAR-01 L-02 H-01 PRS-01 PA-01

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O R 271549Z JAN 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 7629

INFO AMEMBASSY ABIDJAN

AMEMBASSY BOGOTA

AMEMBASSY BRASILIA

AMEMBASSY PARIS

AMCONSUL RIO DE JANEIRO

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E.O. 11652: N/A

TAGS: ETRD, UK

SUBJ: COFFEE: FRENCH PROPOSAL FOR 3RD INTERNATIONAL COFFEE
AGREEMENT

REF: LONDON 1081

1. SUMMARY. BASIC TRADE-OFF IN FRENCH PROPOSAL IS A 25
CENT PER POUND PAYMENT TO PRODUCERS FOR SOME OF THEIR IDLE
STOCKS IN EXCHANGE FOR A MORE DISCIPLINED MARKET AND ASSURED
SUPPLY. QUOTAS WOULD BE REALISTIC AND FLEXIBLE WITH PENALTIES
FOR NON-PERFORMANCE. AN AGREED UPON MINIMUM PRICE WOULD BE
DEFENDED BY QUOTA CUTS. THE PAYMENT INVOLVES A 10 MILLION
BAG RESERVE UNDER ICO CONTROL WHICH WOULD BE BUILT UP OVER
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FIVE YEARS, FINANCED BY A ONE CENT PER POUND EXPORT LEVY;

COFFEE WOULD BE RELEASED FROM THIS RESERVE TO PLACE A CEILING ON PRICE RISES. AFRICANS LIKE PROPOSAL, BUT WE DOUBT ACCEPTABILITY TO BRAZIL. NEVERTHELESS, INTEREST IN SOME FORM OF STOCK MANAGEMENT IN ANY NEW ICA IS GROWING. END SUMMARY.

2. LONG HERALDED FRENCH PROPOSAL FOR A 3RD INTERNATIONAL COFFEE AGREEMENT (ICA) WAS FORMALLY PRESENTED TO THE INTERNATIONAL COFFEE ORGANIZATION (ICO) JANUARY 21, DISCUSSED IN CONSUMER CAUCUS JAN 22 AND BY THE WORKING GROUP ON NEGOTIATIONS (WG) THE AFTERNOON OF JAN 23. PROPOSAL ELICITED CONSIDERABLE INTEREST AMONG CONSUMERS AND AFRICANS BUT BRAZIL (RAFFAELLI) ONLY COMMENTED ON "AN APPARENT CONTRADICTION" IN THE PREAMBLE AND COLOMBIA (GOMEZ) CONTINUED ITS UNBROKEN SILENCE FOR THIS SERIES OF MEETINGS.

3. MAJOR ELEMENTS OF SCHEME WOULD BE AS FOLLOWS:

(A) QUOTAS. "MOVING" BASIC QUOTAS BASED ON PERFORMANCE DURING MOST RECENT FIVE CROP YEARS WOULD BE ESTABLISHED, WITH FLEXIBLE ANNUAL QUOTAS CORRESPONDING TO ESTIMATED WORLD MARKET NEEDS. QUOTA-LOSS PENALTIES FOR NON-PERFORMANCE WOULD MAKE QUOTAS NOT ONLY AN ENTITLEMENT TO EXPORT BUT AN OBLIGATION TO EXPORT. SHORTFALLS WOULD BE MADE UP BY OTHERS. SO-CALLED ANNEX B MARKETS WOULD DISAPPEAR AND THE FRENCH REP (GALLO -- AUTHOR OF PROPOSAL) IN DISCUSSION EXPRESSED PREFERENCE FOR INCLUDING EXPORTS TO BOTH MEMBERS AND NON-MEMBERS UNDER QUOTAS.

(B) STOCK MANAGEMENT. THERE IS A TWIN CONCEPT OF, FIRST, AN ANNUAL 20 PERCENT RESERVE, UNDER THE NOMINAL CONTROL OF THE ICO EXECUTIVE DIRECTOR, WHICH WOULD BE AUTOMATICALLY RELEASED DURING THE FINAL QUARTER OF EACH MEMBER COUNTRY'S CROP YEAR AND, SECONDLY, A TEN MILLION BAG RESERVE STOCK. MAJOR OBJECTIVE OF THE 20 PERCENT RESERVE WOULD BE TO ESTABLISH A PERFORMANCE MEASURE FOR THE REMAINING 80 PERCENT -- GENERALLY SPEAKING, FAILURE TO EXPORT SUBSTANTIALLY ALL OF THIS 80 PERCENT DURING THE FIRST THREE QUARTERS OF A COUNTRY'S CROP YEAR WOULD RESULT IN A CORRESPONDING BASIC QUOTA LOSS. IN EFFECT, THIS 20 PERCENT WOULD SEEM TO BE LITTLE MORE THAN A RESERVE IN NAME ONLY. THE TEN MILLION BAG RESERVE LIMITED OFFICIAL USE

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STOCK - INACCURATELY CALLED A "BUFFER STOCK" IN THE DOCUMENT -- BY CONTRAST IS A TRUE RESERVE. THIS WOULD BE BUILT UP BY OBLIGATORY CONTRIBUTIONS OVER A FIVE-YEAR PERIOD (2 MILLION BAGS PER YEAR -- OR ROUGHLY ONE-THIRTIETH OF A COUNTRY'S QUOTA FOR THE PERIOD) AND NORMALLY WOULD BE HELD IN THE PRODUCER COUNTRY. PRODUCERS WOULD BE PAID 25 CENTS PER POUND (\$330 MILLION MAXIMUM STOCK VALUE), FINANCED BY A US ONE CENT PER POUND LEVY ON ALL COFFEE EXPORTED (I.E., SOME \$78

MILLION TO BE COLLECTED ANNUALLY).

(C) PRICE PROVISIONS. PROPOSAL ENVISAGES A MINIMUM PRICE "WHICH SHOULD BE DEFENDED AT ALL COST . . ." (GALLO MADE IT CLEAR THIS SHOULD BE ABOVE A "DISASTER LEVEL" AND SHOULD NOT BE SPECIFIED IN TEXT OF THE ICA) AND PRICE RANGES FOR THE DIFFERENT TYPES OF COFFEE (ABOUT A 5 CENT SPREAD) SET ANNUALLY BY THE ICO COUNCIL SOMEWHERE ABOVE THE BASIC MINIMUM. SHOULD MARKET PRICES RISE TWO CENTS PER POUND ABOVE THE RANGE, COFFEE WOULD BE RELEASED FROM THE STOCK UNTIL PRICES DROPPED TO WITHIN THE RANGE. THE ONLY DEFENSE OF THE MINIMUM PRICE, HOWEVER, WOULD BE VIA DRASTIC QUOTA CUTS. IT IS IN THIS SENSE THAT THE STOCK IS NOT A TRADITIONAL "BUFFER STOCK" OPERATION SINCE PRICE MOVEMENTS WOULD ONLY TRIGGER RELEASES IN AN EFFORT TO PUT A CEILING ON AND REVERSE INCREASES. THERE WOULD BE NO STOCK PURCHASES DESIGNED TO BOLSTER SAGGING PRICES.

4. THE TRADE-OFF PROPOSED IN THE FRENCH SYSTEM IS THE PAYMENT (ASSUMING THE EXPORT LEVY WOULD BE PASSED ON TO THE CONSUMER) FOR STOCKS, WHICH PRODUCERS PRESUMABLY WOULD HOLD ANYWAY, IN EXCHANGE FOR A COMMITMENT TO ORDERLY MARKETING PROCEDURES PLUS THE RESERVE STOCK DEFENSE AGAINST SHARP PRICE INCREASES. HOLDBACKS FOR SPECULATIVE PURPOSES WOULD BE PENALIZED BY QUOTA CUTS. OVER-SUPPLY PROBLEMS WOULD BE FACED AS IN PREVIOUS ICA'S, BY QUOTA CUTS, AND PRESUMABLY QUOTAS WOULD MORE ACCURATELY REFLECT MARKET AND PRODUCTION REALITIES. HOWEVER, THE PROPOSAL DOES NOT ADDRESS LONG-TERM PRODUCTION POLICY NOR DOES IT SAY WHAT SHOULD HAPPEN TO SURPLUSES IF DRASTIC QUOTA REDUCTION BECOMES NECESSARY. THUS, IT IS A SYSTEM ENVISAGING APPROXIMATE BALANCE BETWEEN SUPPLY AND DEMAND OVER THE NEXT SEVERAL YEARS, OR AT LEAST FORESEEING NO REAL NEED FOR STRUCTURAL CHANGE.

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5. THE AFRICANS SEEM ATTRACTED TO THE PROPOSAL (IT DRAWS HEAVILY UPON THE EARLIER OAMCAF PROPOSAL AND TILTS TOWARD EXPANDING PRODUCTION AREAS). HOWEVER, THE OAMCAF REP (N'DIA) TOLD US HE WOULD WANT TWO MODIFICATION IN THIS (OR ANY OTHER) PROPOSAL: (1) PRICES WOULD BE QUOTED IN SOME MARKET BASKET UNIT OF ACCOUNT RATHER THAN IN DOLLARS AND (2) A MINIMUM PRICE FOR COFFEE WOULD BE SPECIFIED IN THE TEXT OF THE NEW ICA (NOT LEFT TO THE ICC'S DISCRETION). THE BRAZILIAN REP SO FAR HAS BEEN NON-COMMITAL; HOWEVER IT IS DOUBTFUL THAT BRAZIL COULD ACCEPT A SYSTEM IN WHICH A SEVERE FROST LOSS WOULD RESULT IN A QUOTA CUT WHICH WOULD TAKE YEARS TO REGAIN (INDEED, UNDER ONE ARITHMETIC ASSUMPTION, A NEW EQUILIBRIUM WOULD BE ESTABLISHED SOMEWHERE BELOW THE PREVIOUS HIGH).

6. WE THINK THIS PROPOSAL WOULD BE DIFFICULT TO ADMINISTER

(SINCE IT DEPENDS UPON DIFFERING CROP YEARS) AND IN ITS PRESENT
FORM IT MAY NOT BE ACCEPTABLE TO THE LATINS. NEVERTHELESS,
THE PROPOSAL LIKE THE MORE REVOLUTIONARY PORTUGUESE SYSTEM,
FOCUSES ATTENTION ON STOCK POLICY. WHILE THE US AND SOME OTHER
DELEGATIONS HAVE EXPRESSED DOUBTS ABOUT BUFFER STOCK ARRANGEMENTS
FOR COFFEE, INTEREST IN THE WG SEEMS TO BE GROWING IN USING
SOME FORM OF STOCK MANAGEMENT SHORT OF A TRUE BUFFER STOCK
AS A TOOL IN ANY NEW ICA.
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Disposition Approved on Date:
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Disposition Case Number: n/a
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Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
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